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1 Mr. Stapley displayed the presentation on culinary and secondary water that he plans to show City Council today at
2 the budget retreat. It does not include what is being talked about this morning, but Mr. Stapley can change it. The
3 proposed 3% increase for culinary water is coming from Administration as they try to balance the City budget and
4 respond to the direction they've been given from City Council to not raise rates. Mr. Beck stated that Administration
5 is not even thinking about water conservation. Mr. Stapley added that another 20% increase is being proposed for
6 Plat "A" Irrigation and Highline Ditch. In April of 2016 the City will start billing a base rate for pressurized
7 irrigation (PI) at \$10.00/month with a modified tiered rate. Mr. Stapley explained that this is a placeholder for now.
8 It can change after review. He reviewed the shortfalls for the water utility capital expenditures. We have committed
9 sinking funds and operating reserves. The target City Council has asked us to have is 40%; we're currently at 24.4%
10 in operating reserves. So, we are already below what they have asked us to do. Mr. Beck asked if the secondary
11 funds are going to pay back the subsidies. Mr. Stapley said they can; it will be up to City Council to decide. Mr.
12 Stapley plans to use some of the sinking funds to pay for secondary water instead of the Bartholomew Tank
13 replacement. We have about \$800,000 in the sinking funds now, which is about 24%, but we should have about \$1.5
14 million to be at 40%. Some projects will need to be moved further out so we can use funds for current projects.

15
16 Mr. Hotchkiss explained that we know other things are going to come up before year 2022 and we'll continue
17 postponing projects until we manage by crisis. City Council thinks rates are high, but they are actually really low.
18 The budget situation is creating an artificial crisis.

19
20 Mr. Stapley said the problem is we're trying to get source capacity very fast, but we don't have the revenues to do
21 that without dipping into our reserve funds. Mr. Hotchkiss stated we don't know the implications for City Council if
22 the base rate is raised \$3.00.

23
24 Mr. Stapley explained that $\$3.00/\text{base} \times 9404 \text{ bases} / 7700 \text{ residences} \times 12 \text{ months}/\text{yr.} = \$/\text{yr.}$ (338,000) for about
25 every dollar you get about \$100,000. The 9404 number includes all the meters behind the master meters. Mr. Hatch
26 said that it gets complicated when you do percentages. Mr. Stapley stated that City Council is using 9,000 instead of
27 9,404 because they like to use round numbers. Mr. Hatch questioned why they would want to use "wrong" numbers.
28 Mr. Stapley asked if the tiers are correct and if the base rate is appropriate?

29
30 Mr. Crandall asked if the PI users coming on next year will save us culinary water and postpone the 400 S Well
31 project. Mr. Stapley did not have that information with him. The treatment costs of culinary water are not that much,
32 according to Mr. Barker. We only treat spring water because our ground water is so clean.

33
34 Mr. Hatch displayed the table of "Impact of Rate Increases" on the screen. A \$2.00 increase leaves Springville with
35 a really cheap base rate and cheap tiered rates for half of the residents. He figured if there is a \$2.00 increase in base
36 and a 3% increase in tiered rates, we would generate above \$250,000 in incremental revenue. We need two years of
37 surplus and then things should get back to normal. With a \$3.00 increase and 3% for tiers, it would still be a bargain
38 for half our residents. It would more than cover our shortfall.

39
40 Mr. Stapley said the annual target is about \$1.4 million in capital money every year. We have to be careful with the
41 \$250,000. That's a number that we're assuming, based on what J-U-B Engineers did in their studies on how PI
42 would change culinary water use. That number has never been proven; we've never done PI before. Mr. Stapley
43 claims that a \$2.00 increase will cover the deficit.

44
45 Mr. Hotchkiss stated that all this is frustrating because with all the facts and figures that are a little uncertain, City
46 Council is depending on us to look at this in an objective way. And in the end we will make a subjective
47 recommendation to them. Mr. Stapley stated that it is good to give recommendations based on numbers and then
48 City Council can figure out what is palpable to the whole city and keep moving us in the right direction. They have
49 every department in the city asking for more money and they have to try to balance everything.

50
51 Mr. Stapley added that we also need to be careful because bringing secondary water on line isn't the only reason why
52 we're looking at the shortfall. Because of dry weather and our source capacity is below what it should be, we need to
53 put in some very expensive things within the next two years.

54
55 Mr. Andrew stated that we know we cannot cover our costs at the \$1.00 increase they are proposing. Mr. Stapley
56 explained we will have to dip into reserves to cover the shortfall next year. And we're already below the target

1 where they want us to be. So the question is: "what can we do to bring reserves down some, but also bring revenues
2 up, so that when we get passed the first two years, we can sustain ourselves with the rate we've set up?"

3
4 Mr. Hatch asked what the balance should be. The Water Board doesn't really do budgeting. Mr. Stapley suggested
5 recommending a \$3.00 increase, but \$2.00 may be more palpable, and \$1.00 will not be enough.

6
7 Mr. Hotchkiss reiterated the motion on the table for a \$3.00 base rate increase along with the discussion on the
8 adjustment to the tiered rates by 3%. Mr. Hatch added that \$1.00 at 3% will generate \$170,000 incremental revenue.
9 We would get about \$70,000 more from that 3% added on to the base rate increase.

10
11 Mr. Hotchkiss talked about water conservation, which is independent of the budget items. An increase of 10% seems
12 more effective. A 3% increase seems like a waste of time. Mr. Hatch said 1% is worth about \$25,000 on the tiered
13 rate annually based on a 2014 weather year. Mr. Hatch stated there is evidence found that generally people don't
14 respond to prices unless there is publicized drought.

15
16 Mr. Andrew posed the question: Do we want money in reserves or just to break even? Tiers are based on weather;
17 base rates are fixed numbers.

18
19 $\$1/\text{base} \times 9404 \text{ bases} / \times 12 \text{ months/yr.} = \$/\text{yr.} (\$112,848)$
20 $1\% \text{ increase on tiers} = \$25,000$

21
22 Mr. Hotchkiss explained that by adding a 10% increase on tiers like the 10% increase on base rate, we would get
23 \$250,000. So increasing tiers by percentage is about twice as affective as increasing percentages on the base rate.
24 But the base rate is dependable.

25
26 Mr. Stapley explained how City Council looks at it politically. They won't be in favor of a 10% increase in water.
27 \$1.00 sounds better than 10%. He cautioned the Water Board about recommending raising tiers by large percentages.

28
29 Mr. Hotchkiss stated there is something easy about 3 and 3. It's hard enough for us to figure out increases
30 objectively. To try to incorporate the anticipated reactions of the City Council, in light of all the other departments in
31 the City, weakens our statement. He recommended we go with what we believe is prudent and let them play the
32 balancing act.

33
34 Mr. Beck stated the Water Board should recommend rates that will sustain the water system, but it seems like
35 Administration and City Council want us to make recommendations to match what they are feeling. Mr. Stapley
36 explained they are asking for recommendations from the Water Board that explain what it really is. They will take
37 the recommendations and weigh them against other things in the city and the political climate/economy and
38 determine what the citizens can afford at this time.

39
40 Mr. Hotchkiss asked if there is a motion to change the tiered water rate. Mr. Stapley asked if changing the tiers will
41 get us to where we want. Mr. Hatch responded that it will, as easily as changing the base rate. We'll generate more
42 revenue from more people in the upper tiers if we tweak the tiers.

43
44 Mr. Andrew stated our base rate is imbalanced. Mr. Hatch said other communities have relatively soft tiers and high
45 base rates. Mr. Stapley stated that it might be easier for City Council if we show Springville is low on our base rate
46 compared to others, even if we raise it. But City Council won't like raising tiers, according to Mr. Stapley. Mr.
47 Hotchkiss mentioned that raising tiers would help us make a statement about water conservation, which is
48 independent of long term replacement items. Other communities will be raising their rates too.

49
50 Mr. Hotchkiss asked if there was a motion to amend the original motion. There was not. **All were in favor to raise**
51 **the base rate from \$10.00/month to \$13.00/month.**

52
53 Mr. Hotchkiss thanked Mr. Hatch for all the hours of professional service he has rendered to this recommendation.

54
55 Mr. Crandall moved to adjourn. Mr. Hatch seconded. All were in favor.

56
57 **Adjourn** – This meeting adjourned at 7:39 a.m.

May 12, 2015
Approved